

P. O. BOX 2510

ZIA ENERGY, INC.

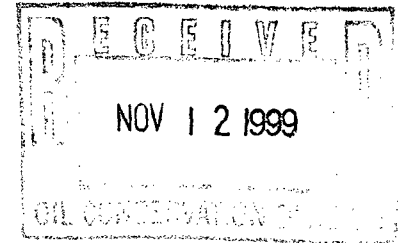
HOBBS, NEW MEXICO 88241

November 9, 1999

PHONE (505) 393-2937

Mr. David Catanach
Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505-6429

2530



RE: Request for Exception to Rule 303-A
Downhole Commingling
Grizzell No. 2
Unit Letter J, 1980' FSL & 1980' FEL
Section 5, T-22S, R-37E

Dear Mr. Catanach

Zia Energy, Inc. requests administrative approval for an exception to Rule 303-A in order to downhole commingle production in the subject wellbore in the Penrose Skelly Grayburg and Drinkard Pools.

The well was producing the grayburg at marginal rates. A cast iron bridge plug separating the drinkard, shut in since May of 1967, has been drilled out. The combined production will be marginal and allocation is based on current and past production rates. The well will be rod pumped and sized appropriately to pump off all fluids and prevent crossflow. Commingling production will extend the economic life of this well.

Enclosed is pertinent data supporting this application. If you have questions or need additional information please contact me at (505) 393-2937 or by e-mail at nelsosd@leaco.net.

Sincerely,

A handwritten signature in cursive script that reads "Scott Nelson".

Scott Nelson

DISTRICT I
1625 N. French Dr., Hobbs, NM 88240
DISTRICT II
811 South First St., Artesia, NM 88210
DISTRICT III
1000 Rio Brazos Rd, Aztec, NM 87410
DISTRICT IV
2040 S. Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

OIL CONSERVATION DIVISION

2040 S. Pacheco
Santa Fe, New Mexico 87505-6429

Form C-107-A
Revised August 1999

APPROVAL PROCESS:

☒ Administrative
☐ Hearing

EXISTING WELLBORE

☒ YES ☐ NO

APPLICATION FOR DOWNHOLE COMMINGLING

Zia Energy, Inc.

P.O. Box 2510, Hobbs, NM 88241

Operator Address

Grizzell

2

J-5-22S-37E

Lea

Lease Well No. Unit Ltr. - Sec - Twp - Rge County

Spacing Unit Lease Types: (check 1 or more)

OGRID NO. 025616 Property Code 013029 API NO. 30-025-10067 Federal State (and/or) Fee X

The following facts are submitted in support of downhole commingling:	Upper Zone	Intermediate Zone	Lower Zone
1. Pool Name and Pool Code	Penrose Skelly Grayburg		Drinkard
2. Top and Bottom of Pay Section (Perforations)	3450-3754		6515-6580
3. Type of production (Oil or Gas)	Oil		Oil
4. Method of Production (Flowing or Artificial Lift)	Artificial Lift		Artificial Lift
5. Bottomhole Pressure Oil Zones - Artificial Lift: Gas & Oil - Flowing: All Gas Zones: Estimated Current Measured Current Estimated Or Measured Original	a. (Current) Estimated 250 psi b. (Original)	a. b.	a. Estimated 300 psi b.
6. Oil Gravity (° API) or Gas BTU Content	36		36
7. Producing or Shut-In?	Producing		Shut In
Production Marginal? (yes or no)	Yes		Yes
* If Shut-In, give date and oil/gas/water rates of last production Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data * If Producing, give date and oil/gas/water rates of recent test (within 60 days)	Date: Rates: Date: Sept 1999 Rates: 3/9/10	Date: Rates: Date: Rates:	Date: May 1967 Rates: 3/2/2 Date: Rates:
8. Fixed Percentage Allocation Formula - % for each zone (total of %'s to equal 100%)	Oil: 50 Gas: 82 %	Oil: % Gas: %	Oil: 50 Gas: 18 %

9. If allocation formula is based upon something other than current or past production, or is based upon some other method, submit attachments with supporting data and/or explaining method and providing rate projections or other required data.

10. Are all working, overriding, and royalty interests identical in all commingled zones? ☒ Yes ☐ No
If not, have all working, overriding, and royalty interests been notified by certified mail? ☐ Yes ☐ No

11. Will cross-flow occur? ☐ Yes ☒ No If yes, are fluids compatible, will the formations not be damaged, will any cross-flowed production be recovered, and will the allocation formula be reliable. ☐ Yes ☐ No (If No, attach explanation)

12. Are all produced fluids from all commingled zones compatible with each other? ☒ Yes ☐ No

13. Will the value of production be decreased by commingling? ☐ Yes ☒ No (If Yes, attach explanation)

14. If this well is on, or communitized with, state or federal lands, either the Commissioner of Public Lands or the United States Bureau of Land Management has been notified in writing of this application. ☐ Yes ☐ No

15. NMOCD Reference Cases for Rule 303(D) Exceptions: ORDER NO(S). R-5088

16. ATTACHMENTS:

- * C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- * Production curve for each zone for at least one year. (If not available, attach explanation.)
- * For zones with no production history, estimated production rates and supporting data.
- * Data to support allocation method or formula.
- * Notification list of working, overriding, and royalty interests for uncommon interest cases.
- * Any additional statements, data, or documents required to support commingling.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE Scott Nelson TITLE Petro. Engr. DATE 11/9/99

TYPE OR PRINT NAME Scott Nelson TELEPHONE NO. (505) 393-2937

District I
PO Box 1980, Hobbs, NM 88241-1980
District II
811 South First, Artesia, NM 88210
District III
1000 Rio Brazos Rd., Aztec, NM 87410
District IV
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-102
Revised October 18, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-025-10067		² Pool Code 19190	³ Pool Name Drinkard
⁴ Property Code 013029	⁵ Property Name Grizzell		⁶ Well Number 2
⁷ OGRID No. 025616	⁸ Operator Name Zia Energy, Inc.		⁹ Elevation 3440

¹⁰ Surface Location

UL or lot no. J	Section 5	Township 22S	Range 37E	Lot Idn	Feet from the 1980	North/South line South	Feet from the 1980	East/West line East	County Lea
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¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
¹² Dedicated Acres 40		¹³ Joint or Infill		¹⁴ Consolidation Code		¹⁵ Order No.			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

¹⁶				<p>¹⁷ OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief</p> <p><i>Scott Nelson</i></p> <p>Signature</p> <p>Scott Nelson</p> <p>Printed Name</p> <p>Engineer</p> <p>Title</p> <p>Date 11/9/1999</p>
			1980	<p>¹⁸ SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under</p> <p>Date</p> <p>of Survey</p> <p>Signature and Seal of Professional Surveyer:</p> <p>Certificate Number</p>

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PO Box 1980, Hobbs, NM 88241-1980
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☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number 30-025-10067		² Pool Code 50350	³ Pool Name Penrose Skelly Grayburg
⁴ Property Code 013029	⁵ Property Name Grizzell		⁶ Well Number 2
⁷ OGRID No. 025616	⁸ Operator Name Zia Energy, Inc.		⁹ Elevation 3440


¹⁰ Surface Location

UL or lot no. J	Section 5	Township 22S	Range 37E	Lot Idn	Feet from the 1980	North/South line South	Feet from the 1980	East/West line East	County Lea
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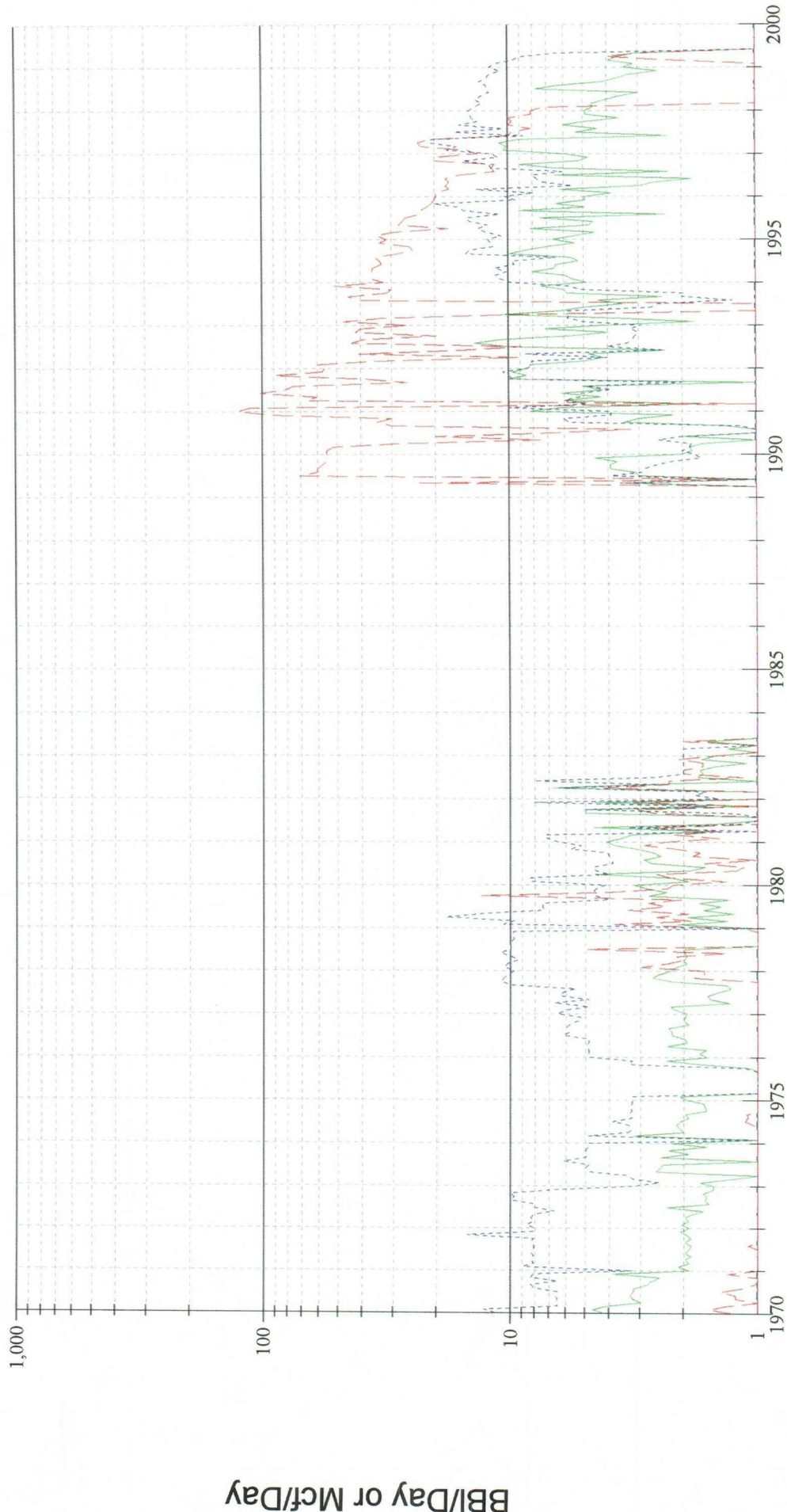
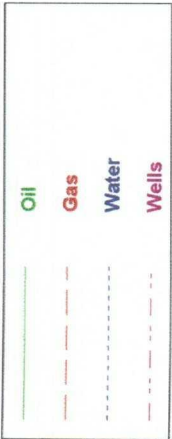
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¹² Dedicated Acres 40	¹³ Joint or Infill	¹⁴ Consolidation Code		¹⁵ Order No.					

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16					¹⁷ OPERATOR CERTIFICATION		
						I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief	
						 Signature Scott Nelson	
						Printed Name Engineer Title Date 11/9/1999	
					1980	¹⁸ SURVEYOR CERTIFICATION	
					I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under		
					Date		
					of Survey		
					Signature and Seal of Professional Surveyer:		
					Certificate Number		

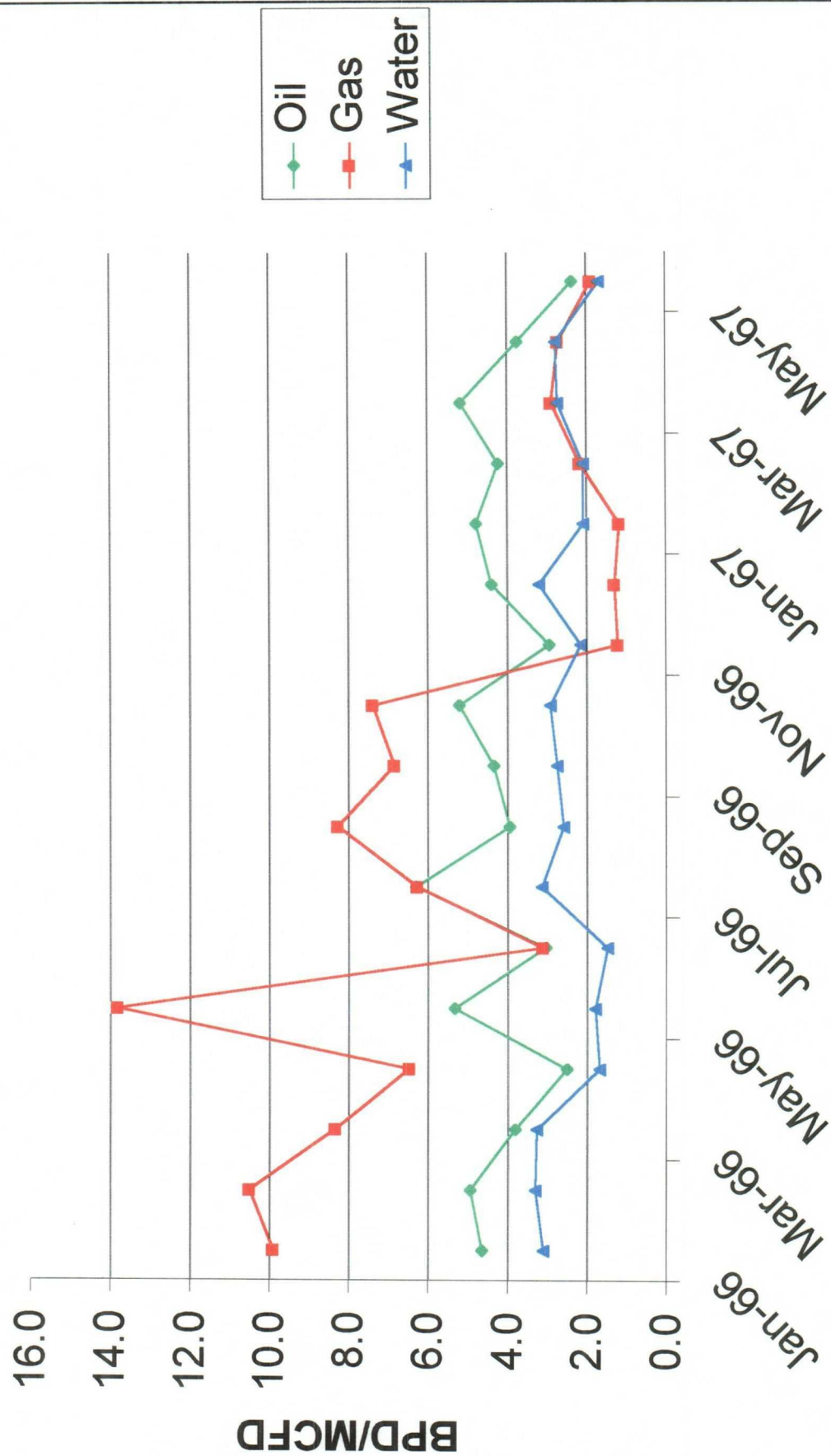
Field: PENROSE SKELLY
 Lease: GRIZZELL | Well #2
 Operator: ZIA ENERGY INCORPORATED
 Production Rate vs Time
 For the Period 01/1970 to 12/1999 | API: 30025100670000



Time

Reported Oil Production = 84,178 Bbls
 Reported Gas Production = 109,372 Mcf
 Reported Water Production = 60,417 Bbls

Grizzell #2 Drinkard



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 5545
Order No. R-5088

APPLICATION OF CONTINENTAL OIL
COMPANY FOR DOWNHOLE COMMINGLING,
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on August 27, 1975,
at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 9th day of September, 1975, the Commission,
a quorum being present, having considered the testimony, the
record, and the recommendations of the Examiner, and being fully
advised in the premises,

FINDS:

(1) That due public notice having been given as required
by law, the Commission has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Continental Oil Company, is the
owner and operator of the Lockhart A-17 Well No. 3, located in
Unit H of Section 17, Township 21 South, Range 37 East, NMPM,
Lea County, New Mexico.

(3) That the applicant seeks authority to commingle Drinkard
and Penrose Skelly production within the wellbore of the above-
described well.

(4) That from the Drinkard zone, the subject well is cap-
able of low marginal production only.

(5) That from the Penrose Skelly zone, the subject well is
capable of marginal production only.

(6) That the proposed commingling may result in the recovery
of additional hydrocarbons from each of the subject pools, thereby
preventing waste, and will not violate correlative rights.

(7) That the reservoir characteristics of each of the sub-
ject zones are such that underground waste would not be caused
by the proposed commingling provided that the well is not shut-
in for an extended period.

(8) That to afford the Commission the opportunity to assess the potential for waste and to expeditiously order appropriate remedial action, the operator should notify the Hobbs district office of the Commission any time the subject well is shut-in for 7 consecutive days.

(9) That in order to allocate the commingled production to each of the commingled zones in the subject well, 50 percent and 70 percent of the commingled oil and gas production, respectively, should be allocated to the Drinkard zone, and 50 percent and 30 percent of the commingled oil and gas production, respectively, to the Penrose Skelly zone.

IT IS THEREFORE ORDERED:

(1) That the applicant, Continental Oil Company, is hereby authorized to commingle Drinkard and Penrose Skelly production within the wellbore of the Lockhart A-17 Well No. 3, located in Unit H of Section 17, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico.

(2) That 50 percent and 70 percent of the commingled oil and gas production, respectively, shall be allocated to the Drinkard zone and 50 percent and 30 percent of the commingled oil and gas production, respectively, shall be allocated to the Penrose Skelly zone.

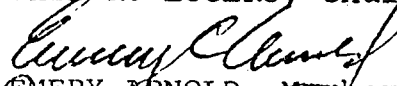
(3) That the operator of the subject well shall immediately notify the Commission's Hobbs district office any time the well has been shut-in for 7 consecutive days and shall concurrently present, to the Commission, a plan for remedial action.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


PHIL R. LUCERO, Chairman


EMERY ARNOLD, Member


JOE D. RAMEY, Member & Secretary

S E A L

jr/